relatively illiquid RCA loans to back debt securities simply is not taught or suggested by the cited prior art, which relates to the use of relatively highly liquid real property in the area of real estate-based financing.

Claims 1-6 Are Definite

Claims 1-6 stand rejected under 35 U.S.C. § 112, ¶2, particularly with regard to Applicants' use of the term "RCA" in the claims. Applicants respectfully point out that page 1, line 10 of the specification clearly defines the term retirement compensation arrangement as "RCA." This same term is used in claim 1. Applicants respectfully assert that in view of the clear definition of the term RCA in the specification, use of the same term in claim 1 is definite. Accordingly, the rejection under § 112 is overcome.

Claims 1-6 Recite Statutory Subject Matter

Claims 1-6 stand rejected under 35 U.S.C. § 101 as directed to non-statutory subject matter. For at least the reasons set forth below, Applicants respectfully assert that this rejection is improper and should be withdrawn.

As an initial matter, Applicants note that no case law is cited to support this rejection. This is not surprising, however, as the premise of the rejection is fundamentally flawed. As clearly explained by the Federal Circuit in *State Street Bank & Trust Co. v. Signature Fin. Group, Inc.*, 149 F.3d 1368 (Fed. Cir. 1998), *cert. denied*, 119 S. Ct. 851 (1999), business methods are patentable and there is no business method exception to § 101. *Id.* at 1375. Further, contrary to the suggestion in the Office Action, there is no requirement for physical transformation in order to qualify as statutory subject matter under § 101. *See AT&T Corp. . Excel Communications, Inc.*, 172 F.3d 1352, 1358-59 (Fed. Cir. 1999); *Office Action* at p. 3. Rather, the test for whether subject matter is within § 101 focuses on whether the claimed subject

matter has a "practical application" or has a "useful, concrete and tangible result." *State Street*, 149 F.3d at 1374 (citing *In re Alappat*, 33 F.3d 1526, 1544 (Fed. Cir. 1994) (en banc)); *Ex parte Banks*, App. No. 1999-1932, slip op. at 4 (B.P.A.I. April 29, 2002) (unpublished); MPEP 2106 II. A ("The claimed invention as a whole must accomplish a practical application").

Clearly, the process recited in independent claim 1, which creates and sells debt securities backed by RCA loans, has both "practical applications" and a "useful, concrete and tangible result." Accordingly, contrary to the Office Action's assertion that there is no practical application of the claimed invention, claims 1-6 are in fact statutory subject matter under 35 U.S.C. § 101.

In addition, Applicants note that the Office Action erroneously mischaracterizes the present invention recited in claims 1-6. At page 3, lines 7-9 of the Office Action, it states that the claimed invention is not a "process for facilitating a business transaction" and, on this basis, urges that claims 1-6 are directed to non-statutory subject matter. The invention recited in claims 1-6, however, is exactly addressed to such a process for facilitating a business transaction, namely:

> A method for offering a debt security, comprising:
> aggregating a plurality of RCA loans;
> creating a plurality of debt securities backed by the plurality of RCA loans; and
> selling the plurality of debt securities in an offering

As shown above, claim 1 clearly and expressly recites a process for facilitating a business transaction, culminating in the sale of debt securities backed by RCA loans. Therefore, even by the Examiner's own analysis, claim 1-6 recite statutory subject matter under § 101. Moreover, it is the Examiner's burden to establish that the claimed invention, as a whole, is "directed solely to an abstract idea or to manipulation of abstract ideas or does not produce a

useful result." MPEP 2106 II. A. Not only has such a showing not been made, it cannot be made at least for the reasons set forth above.

In view of the above, Applicants respectfully submit that the rejection under § 101 is improper and must be withdrawn.

The Pending Claims Are Patentable Over the Prior Art

Claims 1-2, 6-14 and 16-19 stand rejected as unpatentable under § 103 over Modern Real Estate Practice by Galaty et al ("Galaty") in view of "Pensions; Executive Retirement Key Considerations in Designing Retirement Programs" by Kennedy ("Kennedy"). Claims 3-5, 15 and 20 stand rejected as unpatentable under § 103 over *Galaty* and *Kennedy* and further in view of "Loan Options: Conforming or Jumbo?" by Hymer ("Hymer"). For at least the reasons set forth below, Applicants respectfully assert that the claimed method and systems are neither taught nor suggested by *Galaty*, *Kennedy* or *Hymer*, either individually or collectively.

Each of the pending claims recites a system or method in which a plurality of RCA loans are used to secure debt instruments sold in a public or private offering. As explained in the specification, a RCA loan according to an embodiment of the present invention can be secured by (i) the cash surrender value and/or death benefit of an insurance policy and (ii) the right to recover money from the insured's refundable RCA tax account. *See, e.g., Specification* at p. 19, line 17 to p. 25, line 13; p. 25, line 14 to p. 27, line 13. Thus, according to exemplary embodiments of the present invention, several RCA loans, each secured by an insurance policy and a refundable RCA tax account, are used to back debt securities which can be marketed and a sold in the financial marketplace.

Applicants respectfully assert that the use of the claimed RCA loans to back debt securities is in no way taught or suggested by the cited prior art. Indeed, Applicants are not aware of any entity, other than Applicants, that have even attempted to use RCA loans to back debt securities as claimed in the present application.

The primary reference relied upon in the Office Action, *Galaty,* relates to well-known real estate transactions in which real estate loans are used to create mortgage-backed securities. *Galaty* at p. 227. Such mortgage-backed securities, however, fail to teach, or even suggest, the RCA loan-backed securities claimed in the present application. For example, mortgage-backed securities are highly liquid and well understood in the marketplace, having years of financial transactional data available so that risk factors can be accurately evaluated. In particular, the liquidity of mortgage-backed securities derives from the underlying collateral in a mortgage backed security, real property, which is readily identifiable (*i.e.*, on property map) and subject to appraisal (itself also as a well-understood industry) and amenable to sale, lease, refinancing or other disposition.

In contrast, the underlying collateral in the claimed RCA loans of the present application, an insurance policy and a refundable government tax account, are relatively illiquid, especially when compared to the well-established marketplace for mortgage-backed securities and their underlying real property collateral. The illiquidity of the RCA loans derive from the fortuitous nature of the insurance carrier's obligation to pay a death benefit or to respond to an involuntary surrender event, such as termination, disability or sale of a business. Accordingly, any loan obligation secured by such collateral will be illiquid and have impaired value. Further, there is no comparable market for insurance policies as exists for real property or real property backed securities such as described in *Galaty*. Similarly, the refundable government tax account

collateral of the RCA loan also is illiquid and has no marketplace. As explained in the specification of the application, the RCA refundable tax account, as well as the investment portion of the RCA, can only be withdrawn in defined amounts based on events generally beyond an individual's control, such as termination, sale of the business, disability or other such substantial change in employment status. *See Specification* at p. 2, line 15 to p. 3, line 20; p. 5, lines 12-23; p. 26, lines 11-31

Therefore, Applicants respectfully assert that the highly liquid mortgage-backed securities described in *Galaty* fail to teach or suggest the use of relatively illiquid RCA loans to back debt securities as recited in the pending claims. Indeed, the Office Action itself admits that nothing in *Galaty* mentions, or even suggests, the use of an RCA loan to back a debt security. *Office Action* at 5.

The secondary reference relied upon in the Office Action, *Kennedy,* fails to cure the deficiencies of *Galaty* noted above. *Kennedy* describes the prior art use of RCA loans to provide money back to the company funding the RCA, a known practice which also is described in detail in Applicants' Background Information section of the specification on pages 1-14. Unlike Applicants' specification, however, which goes on to provide a detailed description of an exemplary embodiment for aggregating such RCA loans to create debt securities backed by these RCA loans which then can be sold, *Kennedy* makes no mention of any such use, or possible use, of RCA loans.

Indeed, *Kennedy* teaches away from the claimed use of RCA loans to back debt securities, noting several disadvantages inherent in the use of an insurance policy to fund a RCA plan (*see Kennedy* at p. 143, col. 1). Further, *Kennedy* notes that "[a]n insured product in the RCA is a complicated vehicle to provide for funding of the non-registered [RCA] plan."

Kennedy at p. 143, col. 2. Thus, *Kennedy* teaches away from even encouraging the use of an insurance policy in connection with funding a RCA, and teaches nothing regarding use of an insurance policy as collateral for a RCA loan which can back a debt security, as recited in the pending claims.

As a result, a combination of *Galaty* and *Kennedy* fails to teach or suggest the claimed use of RCA loans to back debt securities, if it even was proper to make such a combination, which it is not. Furthermore, there is no motivation to make such a combination based on the express teaching of *Kennedy* away from using insurance policies in a RCA transaction described above. It is well-settled law that there must be some motivation or suggestion to combine references from the references themselves in order to establish obviousness. *Boehringer Ingelheim Vetmedica, Inc., v. Schering Plough Corp.*, 320 F. 3d 1339, 1354 (Fed. Cir. 2003). Clearly, there is no such motivation or suggestion in *Galaty* or *Kennedy* — accordingly the rejection must be withdrawn.

Claims 2-6, 8-15 and 17-20 depend from their respective independent claims 1, 7 and 16 and therefore incorporate each element of their respective independent claim. For at least for the reasons set forth above, Applicants respectfully assert that dependent claims 2-6, 8-15 and 17-20 also are neither taught nor suggested by *Galaty* or *Kennedy*, either individually or in combination.

Although not necessary to overcome the rejections of independent claims 1, 7 and 16, Applicants further note that the *Hymer* reference also fails to cure any of the deficiencies of *Galaty* and *Kennedy*. *Hymer* describes conforming and jumbo mortgages and the possible "piggy-backing" of a second mortgage on top of a conforming first mortgage. Nothing in *Hymer*

describes or suggests the RCA loan structure described in the specification or recited in any pending claims, or the use of such RCA loans to back debt securities.

Conclusion

For at least the reasons set forth above, the pending claims are in condition for allowance. Prompt allowance is respectfully requested.

Respectfully submitted,

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